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April 14, 2006

Ms. Mary Rupp, Secretary to the Board  
National Credit Union Administration  
1775 Duke Street  
Alexandria VA 22314-3428

RE: USA Federal CU Comments on Part 715 ANPR, Supervisory Committee Audits

Dear Ms. Rupp:

On February 23, 2006, the National Credit Union Administration (NCUA) issued a proposed rule on requiring credit unions to modify its Supervisory Committee audit rules. This rule would require credit union Supervisory Committees to:

- Obtain an attestation on internal controls  
Identify and impose assessment and attestation standard for such engagements
- Impose minimum qualifications for Supervisory Committee members
- Identify and impose a standard for the independence required of State-licensed, compensated auditors

USA Federal Credit Union is concerned about how these requirements are established and for what benefit.

While we support efforts to ensure the credit union's Supervisory Committee is engaged in the safety and soundness of a credit union, we seriously question the cost effectiveness and practical application of requiring credit unions to meet standards designed to address fraudulent financial reporting in public companies. We respectfully feel this proposed set of audit rules requires additional consideration on a few key points.

#### Attestation of Internal Controls

**Question 1** – *Should part 715 require, in addition to a financial statement audit, an "attestation on internal controls" over financial reporting above a certain minimum assets size threshold?*

No. Credit unions should not be forced to apply and pay for a standard that is designed for a problem that does not exist in the credit union environment (i.e., fraudulent financial reporting).

Secondly, there is serious question about whether SOX is actually a cost effective standard. The SEC and the Boston Chamber of Commerce have performed studies and concluded that SOX, as it stands now, is not cost effective or beneficial for small public companies.

### Qualifications of Supervisory Committee Members

- **Question 10** – *Should supervisory committee members of credit unions above a certain minimum assets size threshold be required to have a minimum level of experience or expertise in credit union, banking or other financial matters?*

Not all committee members need experience in financial matters. Supervisory Committee members should represent the membership of the credit union and possess a dedication toward improving their understanding of the operation of the credit union. Our recommendation is to require credit unions over \$500 million to have each member of the committee complete some sort of self study program (i.e., CUNA's VAP Certificate Program). There should also be a budget established for supervisory committee members to attend conferences. And as a matter of good business practice, credit unions over \$500 million in assets should either be required to have at least one member of the committee with professional experience in the area of finance or retain the services of a CPA for the purpose of internal audit.

- **Question 11** – *Should Supervisory Committee members of credit unions above a certain minimum asset size threshold be required to have access to their own outside counsel?*

Yes. Having the committee's own outside counsel would be particularly important if there is reason to believe that the credit union's outside counsel is not providing an objective opinion.

- **Question 12** – *Should Supervisory Committee members of credit unions above a certain minimum assets size threshold be prohibited from being associated with any large customer of the credit union other than its sponsor?*

No, as long as the relationship does not create a conflict of interest.

- **Question 13** – *If any of the qualifications addressed in questions 10, 11, and 12 above were required of Supervisory Committee members, would credit unions have difficulty in recruiting and retaining competent individuals to serve in sufficient numbers?*

Compensation is the primary difficulty in recruiting and retaining competent individuals to serve on the Supervisory Committee. More requirements will make this process somewhat more onerous. However, USA Federal employs the recommendations made in the answer to question 10 and has successfully recruited new members to the committee in recent years.

### Independence standards for State-licensed, compensated auditors

- **Question 14** – *Should a State-licensed, compensated auditor who performs a financial statement audit and / or "internal control attestation" be required to meet just the AICPA's "independence" standards, or should they be required to also meet SEC's "independence" requirements and interpretations? In not both, why not?*

State-licensed, compensated auditors should be required to meet the AICPA standards only. Credit unions should not be forced to apply a standard that is designed for public companies.

Audit Options, Reports and Engagements

- **Question 15** – *Is there value in retaining the “balance sheet audit” in existing section 715.7 (a) as an audit option for credit unions with less than \$500 million in assets?*

Yes. However, the limit should be dropped to \$250 million.

- **Question 16** – *Is there value in retaining the “Supervisory Committee Guide audit” in existing section 715.7(c) as an audit option for credit unions with less than \$500 million in assets?*

Yes, for credit unions under \$250 million.

- **Question 17** – *Should part 715 require credit unions that obtain a financial statement audit and/or an “attestation on internal controls” (whether as required or voluntarily) to forward a copy of the auditor’s report to NCUA?*

No. A copy should be available for review at the next exam.

If you have any questions or need additional information on this commentary, please do not hesitate to call me at (858) 831-8100 extension 502.

Sincerely,



Robert Folsom  
SVP Risk Management

cc: Mary Cunningham, CEO  
Virge Harris, Jr., Supervisory Committee Chairperson  
National Association of Federal Credit Unions